

2005-06 Mid Biennial Budget Review

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2005-06 Budget Status Report

- General Fund
- Utilities
- CIP

General Fund Summary

- General Fund financial position remains fragile
 - Revenues projected \$730,000 below the biennial budget
 - 5 years of cost cutting making it difficult for departments to cover shortfall
- May need to use a portion of remaining economic contingency to avoid further reductions of city services

What's happening to revenues?

- Sales Tax collections still have not improved
 - Expected to be \$1.8 million below budget

Sales Tax By Sectors

Sectors	Jan-Aug 2005 (\$M)	% Chg 2005 v 2000	%Chg 2005 v 2004
Business services	\$1.4	-22.2%	7.7%
Manufacturing	.3	0.0%	-25%
Wholesale	1.5	-25.0%	7.1%
Construction	1.6	-23.8%	-5.9%
Retail	4.7	23.7%	2.2%
Telecommunications	.8	33.3%	-11.1%
Other	.5	0.0%	25.0%
Total	\$10.8	-2.7%	.9%

Comparison of Redmond's Sales Tax to Surrounding Jurisdictions

- Other jurisdictions improving but Redmond is not

Sales Tax Collections January – June (\$M)

City	2005	% Chg 05vs00	% Chg 05vs04
Issaquah	\$4.7	23.7%	14.6%
Bellevue	\$19.8	-3.4%	12.5%
Kirkland	\$6.8	15.3%	11.5%
Seattle	\$61.1	.7%	10.3%
Unincorp. King Co	\$36.3	1.4%	5.5%
Tukwila	\$7.8	-6.0%	4%
Renton	\$8.1	6.6%	0%
Redmond (Jan-Jun)	\$7.9	-6.0%	-1.3%
Redmond (Jan-Aug)	\$10.8	-2.7%	.9%

What's happening to revenues (cont'd)

- Telephone Utility Tax collections declining
 - Down 5% from last year; shifting to cheaper telephone alternatives
 - Forecasted \$1.5M below budget
- City losing remaining share of Fines and Forfeit revenues to King County Court
 - \$134K loss in 2005-06 and \$200K loss per biennium thereafter

Revenues (cont'd)

- Development review fees increased effective 3/1/06
 - Will help offset part of the decline in City revenues
- Note: High risk revenue source, heavily dependent on the building cycle
 - Although pickup anticipated in 2006; commercial still low

Development Activity

- City heavily dependent on growth to fund city services
- Activity has declined over 56% since peak, weakening city's revenue base

Development Category*	1999-00	2001-02	2003-04	2005-06	Total
Commercial	7.5	2.9	.7	1.3	12.4
Residential	7.6	3.6	1.9	2.0	15.1
Multifamily	.3	1.0	.7	.8	2.8
Tenant Improvements	.9	.9	1.8	3.0	6.6
Total	16.3	8.4	5.1	7.1	36.9

* Millions of square feet

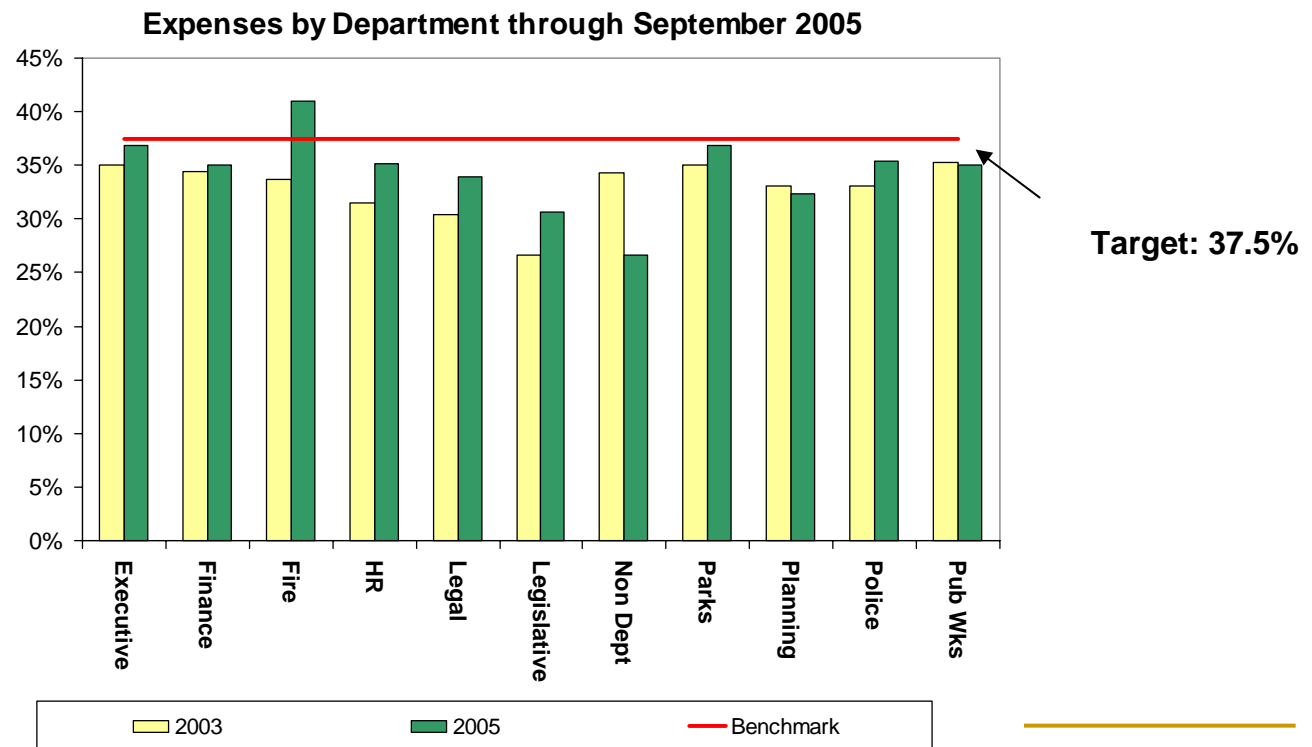
However, growth is cumulative to the base that the City must serve creating pressure on city services

What's happening to revenues (cont'd)

- Other major increases
 - Property tax – due to rise in value of state's utilities
 - Electric and Natural Gas Utility Taxes – higher due to recent rate increases by PSE
 - 12%-15% increases approved for natural gas eff. Oct 1
 - 4.5% increase for electric eff. Nov 1
- Despite these increases, revenues expected to be approximately \$730K below the biennial budget

General Fund Expenditures

- Operating departments* spending a higher percentage of their budgets; expect to be fully spent by 2006
 - Spent 36.4% for first 9 months of biennium compared to 33.9% in 2003

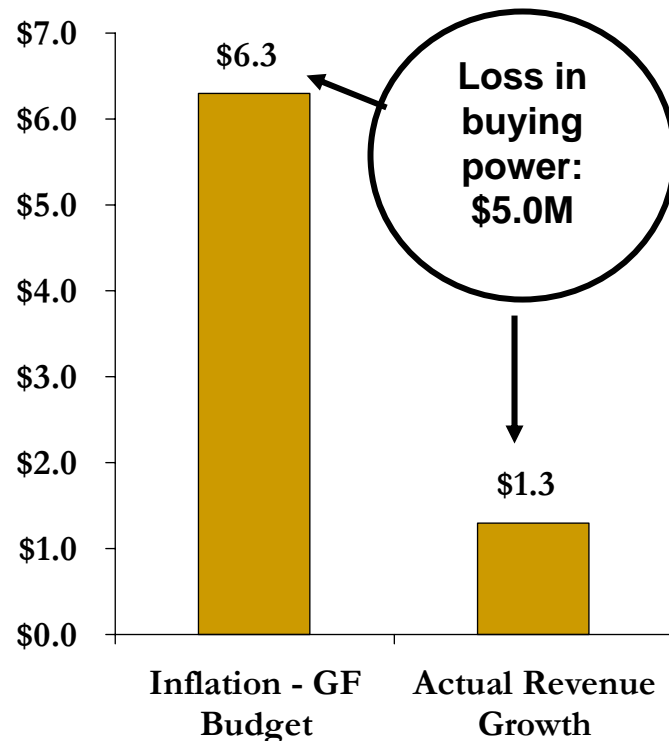


* Excludes Non-departmental and Legislative

Why are budgets so tight?

- Budget has not kept pace with inflation since 2000
 - Inflation up 11.9% vs actual revenue growth of 2.6%
- City has been reducing programs/services since 2001 in response to lower revenues

General Fund Budget Growth vs. Inflation between 2000 and 2005



Actions taken to live within means

- Reducing programs and services citywide
- Filling vacancies only when absolutely necessary
- Negotiating and implementing health benefit premium cost sharing
- Scrutinizing overtime, consulting contracts and other operating expenses

Results of cost containment efforts

- 2001-02: Saved \$6.7 million
- 2003-04: Cut \$3.0 million and 11.7 FTEs
 - Mid biennium, reduced expenses further by \$5.4 million
- 2005-06: Cut \$1.8 million and 6.7 FTEs
- Due to these actions, the Departments ability to cover a potential revenue shortfall for 2005-06 is limited

Options to cover revenue shortfall

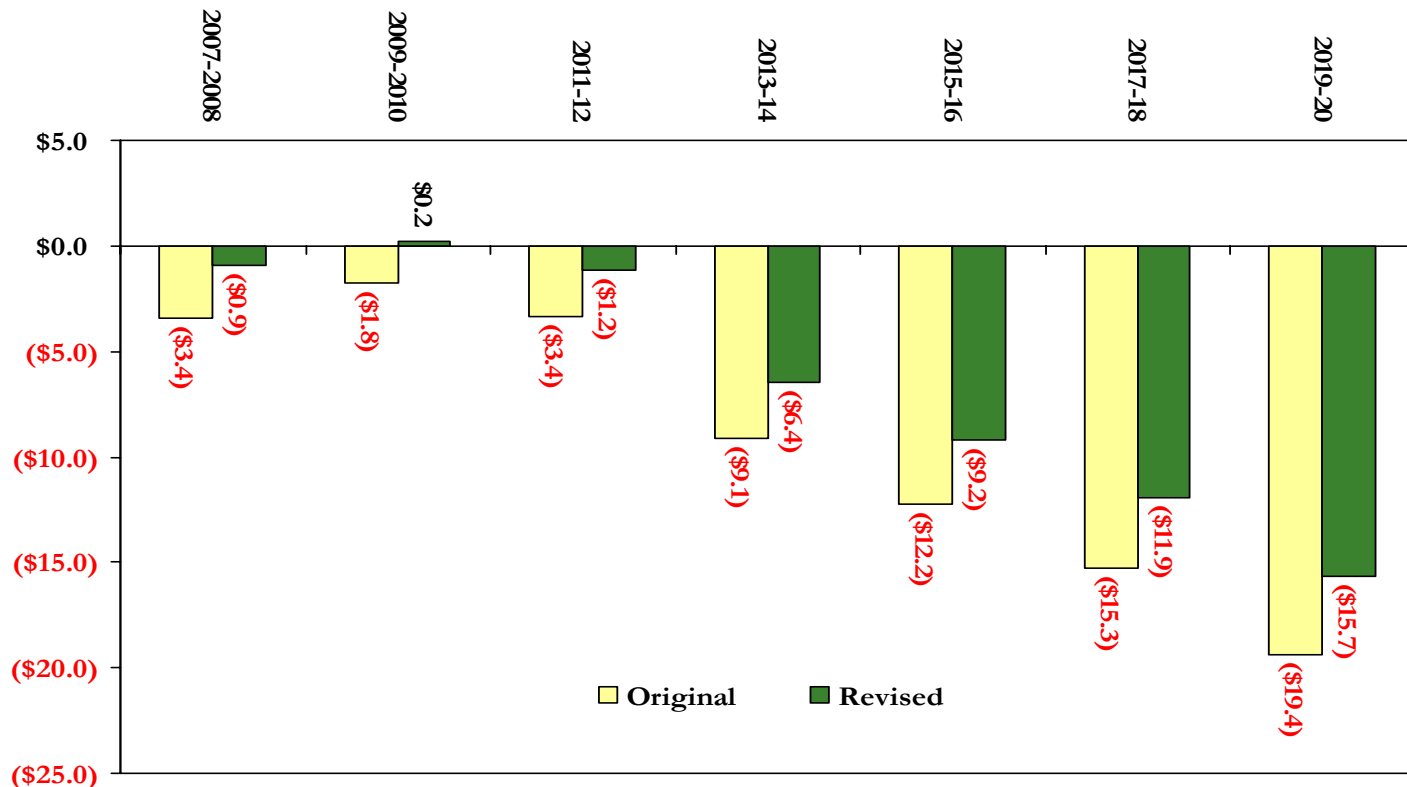
- Use economic contingency (\$1.7 million)
 - Will increase reliance on one-time funding
 - \$2.4 million of one-time money used to balance 2005-06 budget
- Raise Revenues
 - Property Tax
 - Banked capacity - \$1.4 million/year
 - Levy lid lift (voter approval required; earliest availability 2007)
 - B&O Tax
 - Utility Tax
 - Business license fee
- Further reduce City services

Fiscal outlook starting in 2007

- Changes to the base forecast
 - Increases deficit
 - Lowered Sales Tax projections
 - Eliminated Fines/Forfeit revenues
 - Reduces deficit
 - Incorporated Development Review fee increases approved by Council effective 3/1/06
 - Increased projections for Electric and Natural Gas Utility Taxes
 - Reduced reserve requirements to 8.5% from 10% based on Council long range financial strategy (LRFS)

Impact of revised revenues and LRFS decision on Base (do nothing) Forecast

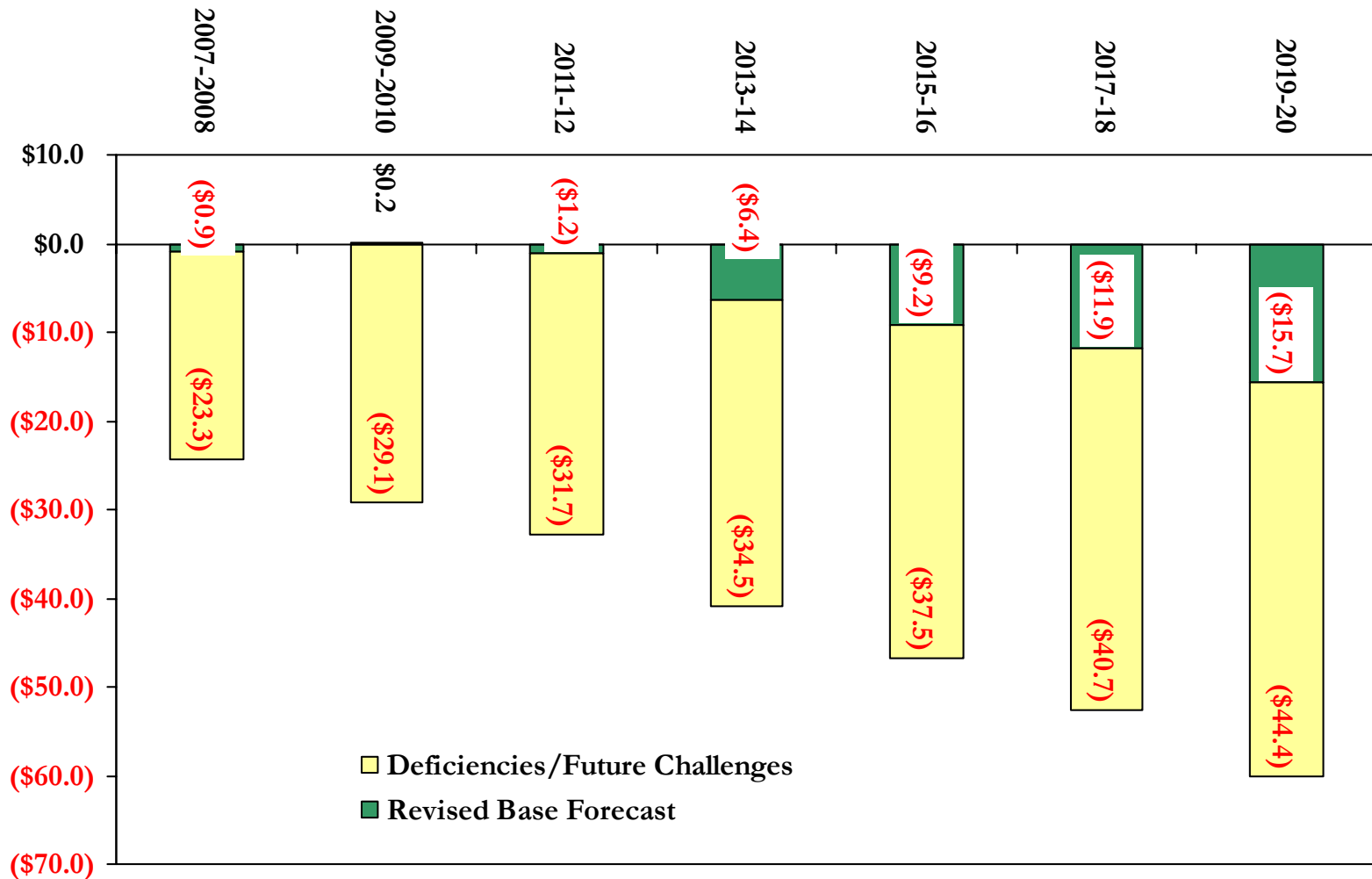
- Deficits still looming; City has not yet created a sustainable solution
- Service levels decline over time as existing deficiencies and future challenges not addressed



Existing deficiencies and future challenges

- Departments have identified \$15.0 million on an annual basis in existing deficiencies and future challenges
- Broad categories
 - ❑ Ensure a safe City: \$8 million
 - ❑ Sustain a strong organization: \$3 million
 - ❑ Manage and protect City assets: \$3 million
 - ❑ Connect with community: \$1 million

Effect on forecast: Existing Deficiencies and Future Challenges



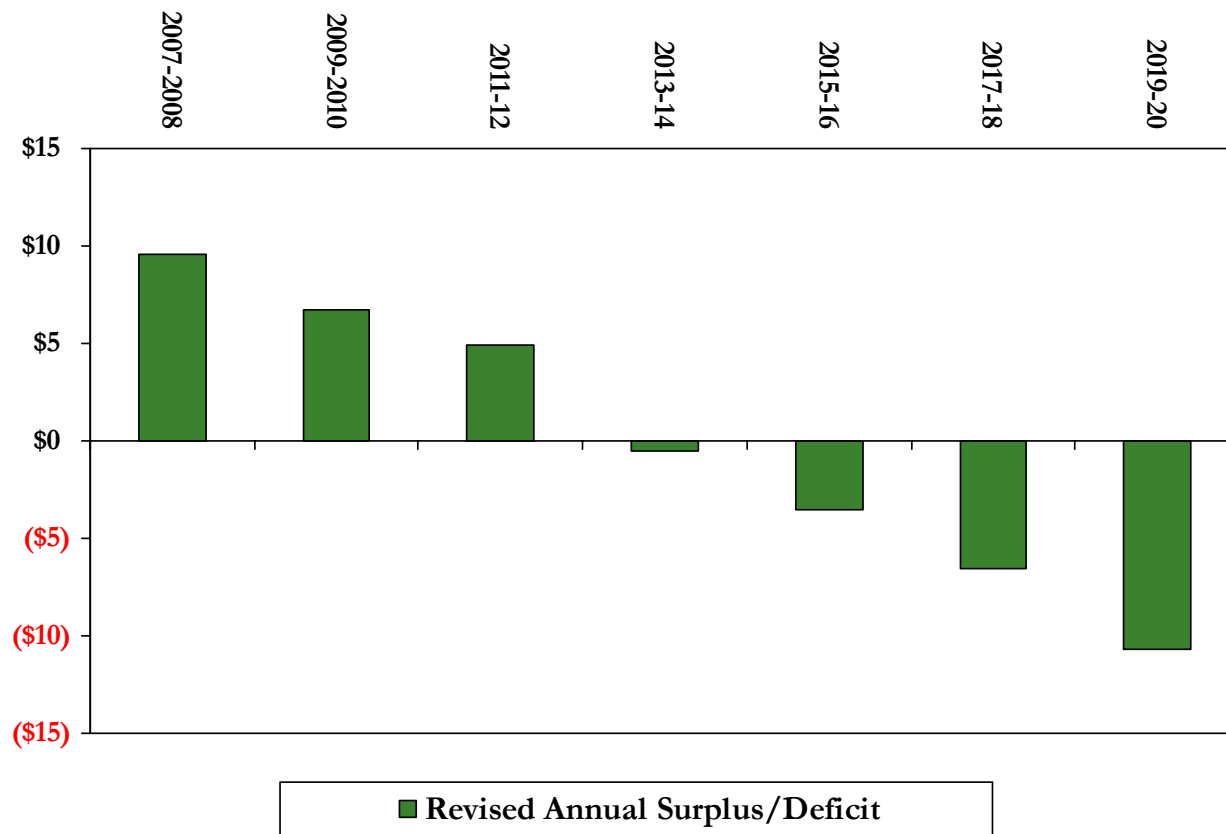
Mayor's Proposed Solution

- Cost containment measures in place for last 5 years; capacity for further cuts limited if further deterioration of services avoided
- Mayor proposed \$16.7 million revenue package (plus inflation) to address City service needs and close existing fiscal gap over next 6 years
- **REVENUE PROPOSAL:**
 - **Property tax increase of 93 cents/\$1000 AV** **\$ 8.7M**
 - **Business tax increase of \$93/FTE** **\$ 6.0M**
 - **Development revenue fee increase to 85%-90% cost recovery level (Council approved 10/05)** **\$ 2.0M**
 - **Total*** **\$16.7M**

* Plus annual inflationary increases

Effect on Forecast: Mayor's Proposal

- With inflation adjustments, generates sufficient revenue through 2012 to cover city needs; begins to move City in right direction
- City will need to re-evaluate service needs and revenue options beginning 2013



Conclusion

- Redmond's financial position remains tenuous
- Continued reliance on volatile and high risk revenues such as sales tax, development and one-time revenues leaves City vulnerable
- To fix, City needs sustainable revenues that keep up with the cost of services and better insulate it from economic swings

Part 2:

Utilities and CIP

Utilities - Summary

- In general, utilities performing within budget guidelines and have sufficient cash to meet operating and capital needs in 2005/06
- Operating trends
 - W/WW – Income lower primarily due to decline in water consumption
 - UPD – Losing money; depreciation is not being fully funded
 - Stormwater – Income about the same as last year; however rates allow CIP to be only partially compliant with environmental regulations
- May need to increase rates in the future to address decline in water consumption and Stormwater CIP issues

Water/Sewer Utility

- Water/Sewer revenues down \$800K
 - Water consumption declined 12%.
 - Income from operations declined from \$1.3M (2004) to \$285K (2005)

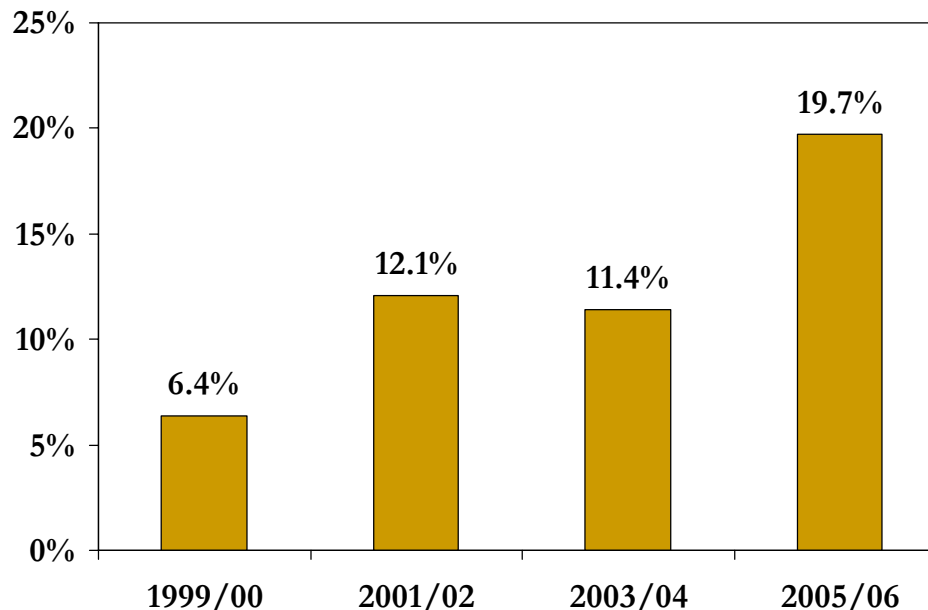
Percentage change in Water Sales by Customer Class
2005 vs. 2004

Customer category	% Change from 04
Irrigation	-34%
Multifamily	-4%
Commercial	-2%
Residential	-10%
Total	-12%

Water/Sewer (cont'd)

- Sufficient cash flow to meet daily needs and reserve requirements
 - Current cash \$2.5 million above required reserve level of \$1.8 million
- CIP execution has improved; spent \$4 million thru September

CIP Expenditures thru September, 1999-2005
% of Biennial Budget Expended



Water/Sewer (cont'd)

- Major CIP expenditures
 - SE Redmond Transmission Main
 - Water Quality and System Improvements
 - Design/Rehabilitation of City wells

Water/Sewer Conclusions

- Rates will be reviewed in 2006 to determine future operational and capital funding needs
 - Available cash makes it possible to defer any rate increase, if required, to 2007

UPD Utility

- Generating sufficient cash flow for operations, however depreciation is not being fully funded
 - Unfunded depreciation \$1.5 million
- Income from operations including depreciation is a negative \$500K
- In 2005, operating revenues are down due to:
 - Decline in water consumption
 - Lower level of development

UPD Utility (cont'd)

- Water consumption declined 8%

Percentage change in Water Sales by Customer Class
2005 vs. 2004

Customer category	% Change from 04
Irrigation	-39%
Multifamily	-8%
Commercial	41%
Residential	17%
Total	-8%

UPD Utility

- Development activity has slowed
 - Depreciation surcharge, which is based on number of connections, is down 43%
 - Expect revenue to improve when construction of an additional 800 lots begin in late 2005 or early 2006

- Will review rates in 2006 to determine whether water rates and depreciation surcharge are adequate to fund operations including depreciation

Stormwater (SWM) Utility

- No major changes in SWM financial position between 2004 vs. 2005

- SWM rate
 - ❑ Maintained at \$11.50, although CIP surcharge eliminated
 - ❑ Has resulted in less money being transferred to CIP which allows CIP to be only partially compliant with environmental regulations
 - ❑ To be fully compliant rate needs to be increased to \$14.85; the proposed \$17.85 allows for acceleration of CIP
 - ❑ Council committed to study this issue further in 2005; however review has been delayed

Status of Major SWM CIP Projects

CIP proceeding as planned

	In Design	Under Construction	Completed
SWM	<ul style="list-style-type: none">✓Eastside industrial storm-drain improvements✓NE 85th water quality✓Sammamish habitat preservation 4	<ul style="list-style-type: none">✓Idylwood Stream upper reach✓NE 116th Street culvert replacement✓NE 87th culvert replacement	

Stormwater Conclusions

- Rate increase maybe necessary in 2006 as current funding not adequate to ensure full compliance with environmental regulations
 - Current rate \$11.50; proposal \$14.85 or \$17.85 if CIP accelerated
- Further Council review anticipated early next year.

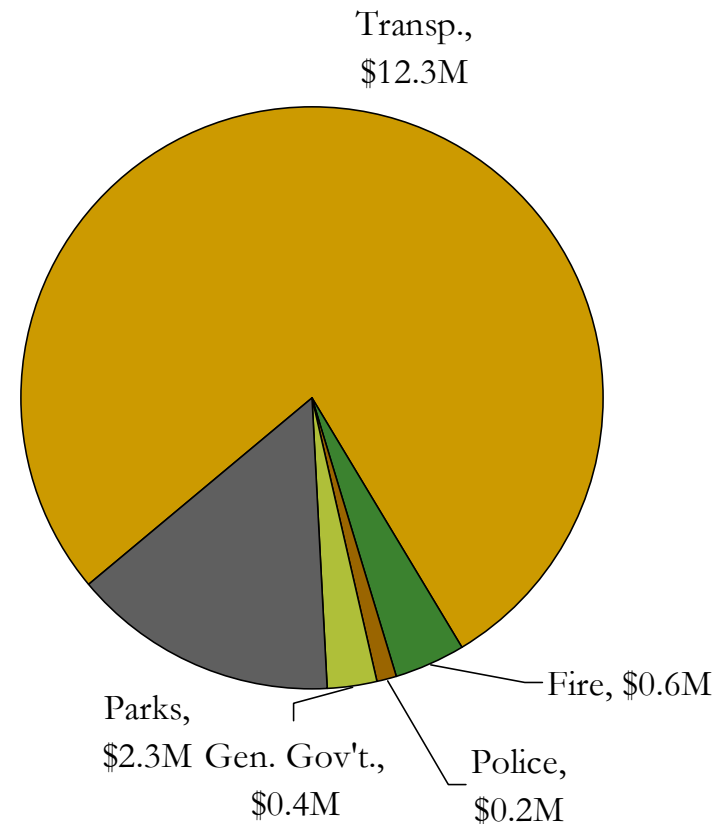
General Capital Improvement Program

- Revenues are coming in stronger than expected
 - Collected 50% of biennial budget; target is 37.5%
- Real estate excise tax
 - \$600,000 (30%) above last year levels; strong single family home sales
- Private contributions
 - Collected \$660,000 vs budget of \$195,000; York Bridge & 116th widening
- Impact fees
 - \$380,000 or 31% higher than last year due to strong residential construction

Capital Investment Program

- Project execution has improved
- Spent 23% of budget thru Sept compared to 11.9% and 20.6% in 2003 and 2004, respectively
- Largest expense in Parks and Transportation

2005 CIP Expenditures to Date: \$15.8M



Status of Major Transportation Projects

Transportation has spent 34% of its biennial budget thru Sept; compared to 27% in 2004

In Design	Under Construction	Completed
✓185 th Ave Extension	✓SR202 additional lanes	✓Union Hill widening (178 th to 188 th)
✓Bear Creek Parkway extension	✓York Bridge (NE 116 th) reconstruction	✓Redmond Way access control
✓Old Redmond Road (132 nd to 140 th)	✓156 th Sidewalk (nearly complete)	✓West Lake Sammamish Pkwy (51 st to Marymoor)
✓Leary Way/SR520 bike trail	✓NE 83 rd improvements (160 th to 161 st)	✓140 th Ave. sidewalk improvements
✓Redmond Way sidewalk improvements	✓NE 116 th Street widening east of 162 nd	✓Land acquisition for Bear Creek Parkway
✓Union Hill Road Ph. 2 (Avondale to 178 th)	✓Redmond Intelligent Transportation System (RITS)	

Status of Major Park Projects

Parks expense level has remained constant at 19% of budget

In Design	Under Construction	Completed
✓Campus Master Plan ✓SE Redmond neighborhood park ✓Bear Creek Park trail development	✓Bear/Evans Creek Trail Phase 1	✓Idylwood Park playground equipment ✓Leary Way shop site abatement of existing structures

Status of Other Major CIP Projects

Police, Fire and General Government CIP expenditures totaled \$1.2 million for the first nine months in 2005 and are comparable to 2004 levels

	In Design	Under Construction	Completed
Police	✓Police evidence storage area		✓Installation of mobile data terminals in police cruisers
Fire	✓Fire station #16 repairs		
General Government		✓New City Hall; 1 st lease payment in December	

Conclusions

- No budget adjustments at this time
- General Fund needs to be watched closely as revenue shortfall projected
- Will review all utility rates in 2006
 - No rate increase likely for Water/Sewer in 2006
 - UPD rates are not adequate and may need to be adjusted either in 2006 or 2007
 - Stormwater has a rate proposal on the table which is pending further Council review
- No major delays on CIP projects

QUESTIONS?